

## Chapter 7

# The Impact of Exchange Rate on Tourism Industry: The Case of Turkey

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### ABSTRACT

*Tourism sector that is increasingly important in the world economy, developing rapidly in Turkey and provides a serious contributions to country's economy because Turkey consistently has a current account deficit, tourism is an important source of income. There are many factors affecting tourism; it is clear that the industry can be affected by changes in macroeconomic variables, just like any other economic focus. In this context, it is possible that the foreign exchange rate and changes in the value of various currencies can affect tourism, especially with regards to the demands of the tourists themselves. By using the Johansen cointegration and Granger causality tests, this chapter focused on identifying the relationship between currency exchange rates and the demand for tourism in Turkey.*

### INTRODUCTION

Tourism, with the generating of commercial airline industry after the World War II and with the using of the technologies of jet aircraft which highly accelerates transportation in 1950s, has gained speed and grown up significantly. As of 1990s, it has become a vast sector that provides employment at most in the world. At present time, international tourism, both in terms of providing new occupation opportunities and being basis

of the exchange income in many countries, has become one of the primary points. From the 20<sup>th</sup> century, tourism sector with telecommunication and information technologies has become one of the most expanding sectors in the world economy. Moreover, it is, after the petrochemistry, the second largest sectors in the west and it is also among the first large three sectors in the world (Pinar, 2005).

According to the World Travel and Tourism Council (WTTC), tourism is one of the largest sectors in the world not only in the sense of gross

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production scope, employment, tax contribution but also capital investment and value-added (Aslan, 2008). While the world tourism revenue was \$2.1 billion in 1950, it increased to \$1.075 billion in 2012. It was also same for the number of tourists. Whereas 25.3 million people participated in tourism circulation in 1950, this number reached to 1.035 million people in 2012 (UNWTO, 2013).

Although the tourism industry has several important dimensions—historical, social and cultural—it is foremost a social activity which is most important when considered as an economic variable. From the economic perspective, the tourism industry's foreign exchange earnings, encouragement of foreign capital investment, employment, and economic growth and development effects make it one of the most important industries for any country. Particularly, the development of international tourism has some advantages for developing countries in terms of needed foreign currency (foreign exchange) and increasing revenues. Tourism is a constantly growing source of commerce, and the market is relatively less stable or reliable when compared other major industries such as manufacturing or the production of basic commodities. In addition, the tourism market necessarily requires that consumers themselves must travel to the source of the goods or services they wish to consume: the products of or utility derived from the act of partaking in tourism cannot be delivered to the customer. Therefore, it is a more effective import substitution. Finally, for many countries, a strong tourist sector means both diversification of the economy and a reduction of the dependence on traditional exports (Samırkaş & Bahar, 2013).

The tourism sector in Turkey demonstrated rapid development, especially after the 1980s. One of the most powerful steps taken to foster this growth was the introduction of "Tourism Incentive Law No. 2634," which came into force in 1982 (Tosun, 1999). The law incentivised investments made in the country's tourism sector

and was an important step for the development of the industry in Turkey.

In 1980 a total of 778 facilities were registered as certified tourism businesses, with 42,011 rooms and 82,332 beds available to guests. By the year 2012, investment had raised those numbers 3,830 facilities, 463,039 rooms, and 979,896 beds. As a direct result of these developments, the country has seen a dramatic rise in the number of visitors and associated tourist revenue. In 1970, only 754 thousand tourists came to Turkey. In contrast, 1.2 million visited in 1980 and 35 million visited in 2013. Alongside these increased visitor numbers, tourist revenues of 1970 measuring US\$51.6 million rose to US\$326.7 million in 1980—an increase of approximately six and a half times—and had become US\$32 billion by 2013 (Ministry of Tourism, 2013). These Tables demonstrate that the tourist market in Turkey continued to grow even after 1980.

In Turkey, which suffers a constant negative balance of trade, tourist revenue assumes a very important role in eliminating the trade deficit—in other words, ensuring the current account balance. As seen in Table 1, the deficit in Turkey's balance of international payments has been a problem for many years. At the beginning of planned development period, Turkey aimed to reduce the deficit in the country's balance of payments through growth in tourist revenues and tourism development.

Factors affecting the number of visitors to the country can be generally sorted into the following categories: number of available tourist facilities, global economic development, prices of tourist-oriented products and services, and exchange rates. Currency exchange rates in particular have significance due to their ability to represent tourist-oriented product and service prices for foreign tourists visiting the country (Uğuz & Topbaş, 2011). The ability of any improvement in the exchange rates to be effective in stimulating tourism depends on the capacity of that country to compete in the global tourism market.

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